

**“U.S.-CHINA RELATIONS: MAXIMIZING THE EFFECTIVENESS OF THE STRATEGIC AND ECONOMIC DIALOGUE”**

**PREPARED STATEMENT OF  
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Chairman Faleomavaega, Ranking Member Manzullo, thank you for the invitation to speak to you today about the U.S.-China Strategic and Economic Dialogue, and the United States economic relationship with China.

**Framework for the U.S.-China Economic Relationship**

Building upon President Obama’s call for a positive, cooperative, and comprehensive relationship, the U.S.-China Strategic and Economic Dialogue (S&ED) that President Obama and President Hu initiated in April recognizes that cooperation between China and the United States is vital not only to the well being of our two nations but also the health of the global economy. Today I will speak mainly about the Economic Track of the S&ED and leave discussion of the Strategic Track to my colleague, David Shear.

In my testimony, I will provide a brief overview of the Economic Track of the S&ED, its objectives and achievements, and discuss how the S&ED fits into the overall management of U.S.-China economic relations.

**S&ED Economic Track Overview**

In the last few years the frequency, intensity, and importance of U.S.-China economic engagements have multiplied. China and the United States individually, and together, are important enough in the global economy that what we do has a direct impact on the stability and strength of the international economic system. Both nations have an obligation to ensure that our policies and actions promote balanced, sustainable global growth going forward.

The Economic Track of the S&ED provides a framework for promoting productive bilateral economic engagement and core U.S. interests. As Secretary Geithner said to the Chinese at the S&ED, “the United States and China may not always agree on economic issues, but the S&ED provides a platform for narrowing our differences and reinforcing our common interests, both bilaterally and in setting the multilateral economic agenda.”

I'd like to discuss the first meeting of the Economic Track of the U.S.-China Strategic and Economic Dialogue, held on July 27 and 28, in which one of the largest delegations in the history of our bilateral relations met for two days, involving twelve U.S. economic Cabinet officials and agency heads and 15 Chinese Ministers, Vice Ministers and agency heads.

Both sides agreed on a framework for cooperation on economic issues based on four pillars: i) promoting a strong recovery and achieving more sustainable, balanced growth, ii) promoting more resilient, open, and market-oriented financial systems, iii) strengthening trade and investment, and iv) strengthening the international financial architecture.

### **Promoting a Strong Recovery and Achieving More Sustainable, Balanced Growth**

First, we will undertake macroeconomic and structural policies to ensure a more sustainable and balanced trajectory of global growth.

In the United States, the current account has fallen and private savings rates have risen to historical average levels, and we will take steps to sustain and reinforce these trends. President Obama has committed to lowering the federal deficit to sustainable levels once recovery is firmly established. The Administration is committed to investments in energy, education and health care that will rebuild the American economy on a firmer foundation going forward.

China will rebalance towards domestic demand-led growth and increase the share of consumption in GDP. Policies to enable adjustment of demand and relative prices will lead to more balanced trade and growth. Greater development of China's services sector and the shift away from dependence on exports and heavy industry will have a powerful effect not only on rebalancing but also supporting the transition to a green economy.

### **Promoting More Resilient, Open, and Market Oriented Financial Systems**

Second, we focused on the importance of building more resilient and market-oriented financial and regulatory systems. The United States underlined its commitment to stronger regulation and supervision of the financial system. China agreed to undertake specific measures, including promoting consumer finance; allowing foreigners to invest more in China's capital markets; increasing the number of foreign joint-venture securities companies that can participate in brokerage, proprietary trading and advisory services; allowing foreign banks incorporated in China to underwrite corporate bonds on China's inter-bank market on the same basis as Chinese banks; and allowing qualified overseas companies to list on Chinese stock markets and promote the listing of Chinese companies on U.S. stock markets.

This will not only create market opportunities for U.S. financial services firms, but creating a more developed and market-oriented Chinese financial sector through such measures as liberalizing interest rates and creating a wider variety of financial products and services, will

help boost the incomes of Chinese households and contribute to more consumption-led growth.

The two sides also agreed to strengthen their cooperation on anti-money laundering and countering the financing of terrorism, and we will continue to encourage the Chinese to strengthen efforts to counter the threat of North Korea and Iran's nuclear weapons program.

### **Strengthening Trade and Investment**

Third, the U.S. and China each reaffirmed their commitment to open and rules-based trade and investment. China committed to a range of measures that over time will create new opportunities for U.S. firms and workers through increased trade and investment. China announced its intention to further open its service markets to private investment, and decentralize its foreign investment reviews, including by raising the dollar threshold of foreign investments that requires central government review. Chinese authorities also clarified that products produced in China by foreign-invested enterprises will be treated the same under China's government procurement regulations as products produced by Chinese producers, and also agreed to intensify efforts to join the WTO Government Procurement Agreement.

### **Strengthening the International Financial Architecture**

Fourth, the United States and China recognized the critical role of the international financial institutions in preventing and responding to crisis and ensuring balanced global growth. The global economy has fundamentally changed since the historic gathering at Bretton Woods and so too must the global architecture that bears its name. We committed to work together to ensure the international financial institutions have the requisite resources and tools to address today's challenges. We will work together to ensure China's full engagement and representation in the design of key multilateral agreements and groupings, such as the G20, the Financial Stability Board, and the international financial institutions.

### **How the S&ED Fits into the Management of U.S.-China Economic Relations**

While the S&ED will meet annually, having agreed on priorities and broad policy commitments, the work of the S&ED will continue throughout the year, through coordination with other bilateral economic fora such as the JCCT and Deputy and staff led working-groups. Treasury will lead efforts to promote reforms of macroeconomic and financial policies, and the international financial institutions, through the Joint Economic Committee (JEC) and the Financial Stability Working Group (FSWG). The Investment Forum, co-led by Treasury, State, Commerce, and USTR, will promote open investment policies. Frequent and constructive interactions with Chinese finance and economic officials in multilateral settings such as the G20, IMF and World Bank annual meetings, and Asia Pacific Economic Cooperation (APEC) meetings, provide further opportunities to enhance our cooperation. At the S&ED, the U.S. and China also agreed to continue a range of other bilateral economic dialogue mechanisms on banking

supervision, transportation, communications, postal reform, health, agriculture and labor issues.

And throughout the year we intend to consult with and seek the advice of Congress, including members of this Committee and your staffs, U.S. businesses, labor, and other groups affected by U.S.-China relations.

Thank you again for the opportunity to appear before you on this important topic and I would be happy to take any questions you have.